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SUBJECT: MEXICO SEE FDI SURGE FROM TAX HAVEN COUNTRIES

¶1. (U) SUMMARY: During the first quarter of 2007, Mexico has experienced a surge in Foreign Direct Investment (FDI) from "tax haven" countries such as the Virgin Islands and Bermuda.

FDI inflows from these countries have been second only to inflows from the United States. Officials from the Secretariat of Economy acknowledge the phenomenon, and assure

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that the money is not involved in money laundering or terrorist financing. While the fear of the funds being used for illicit activities appears small, Post will continue to monitor the situation. Current consensus is that the Mexican surge in FDI from "tax haven" countries mostly reflects multinationals seeking to legally minimize their tax obligations. End Summary.

¶2. (U) The Secretariat of Economy and the Bank of Mexico recently published the FDI numbers for the first quarter of ¶2007. Total FDI for the period was more than USD 6.5 billion, 66 percent more than FDI for the same period last year. The number is a result of a large growth in profit reinvestments. While this number is not likely to be sustained over the course of the year, the GOM cites this as proof that Mexico continues to be a strong FDI attractor. Conversely, a majority of analysts surveyed by the Bank of Mexico say that fiscal reform, labor reform and energy reform are needed to encourage a sustained increase in investment.

¶3. (U) Miguel Messmacher, Head of the Secretariat of Finance's Economic Planning Unit told Econoff that FDI figures for the first quarter of 2007 were hard to read because FDI was low at the end of 2006 due to uncertainty about the 2006 Presidential election. He noted that there was not a single one-time investment accounting for the 66 percent increase, noting that it was across-the-board. This official said it was possible the increase resulted from investments that had been delayed from 2006.

¶4. (U) More interesting is the change in the makeup of countries that provide FDI. The United States continues to be the primary investment source for Mexico with USD 3.2 billion and 66 percent of all FDI. However, the "tax haven" countries of the Virgin Islands and Bermuda accounted for a little over USD 1 billion (22 percent) of 1st quarter FDI. Granted, these inflows will likely prove to be spikes as other quarters see lower inflows from these two countries, but the participation from these two countries over the past few years has been notable. As recently as 2004, FDI from the two countries accounted for only 0.2 and 0.0007 percent of FDI, respectively. While neither country has experienced years of sustained growth in FDI investments to Mexico, 2005 saw USD 2 billion in inflows from the Virgin Islands, while this quarter's investment from Bermuda is the first of its kind for that country.

15. (U) Gregorio Canales Ramirez, Director General for Foreign Direct Investment at the Secretariat of the Economy, told Econoff that the phenomenon of large investments from "tax haven" countries is very well known, and is a recurring theme in the Investment Committee and the OECD's Working Group on Statistics. He says that the practice of some multinational companies of moving money through "tax havens" greatly affects the clarity of FDI figures and as of yet, no worldwide methodological solution has been found to counter the effects.

16. (U) Secretary of Economy, Eduardo Sojo publicly countered claims that the increase in FDI from "tax haven" countries could conceal the use of this investment in money laundering schemes. He said that all investment into the country is reported in the National Register of Foreign Investment and any doubts on the origin of funds are reported to the corresponding authorities. The Financial Intelligence Unit (FIU) of the Secretariat of Finance is in charge of insuring that funds that enter and leave Mexico are not used for illicit purposes.

17. (U) Comment: All officials and experts that we spoke with about the increase in FDI from "tax haven" countries agree that this investment was due almost exclusively to companies trying to legally minimize their taxes. At this time, FIU officials see no increase in money laundering activity despite the sharp increase in FDI. Post will continue to monitor the situation particularly if the numbers continue at such high levels.

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